

## Ten Minute Supervisor #8

### Fact Sheet: *Vouchering Employee Salaries & Benefits*

Conservation districts can voucher state grants for employee salary and benefit costs in two ways: the gross wages method or by using a composite rate system. This is not a detail routinely reviewed by Board supervisors, but our recent experience suggests you should become familiar with the issue.

District operation reviews performed by Conservation Commission staff and audits by the State Auditor's Office have identified **incorrect use of the composite rate system** in several districts. The result is getting paid twice for the same expense, or "double billing." Not only is it embarrassing, but the district may receive an audit finding and be required to refund money to the granting agency. We suggest the Board review its policies and procedures.

#### ✓ What are they?

**Gross Wage:** the hourly wage or equivalent for salaried employees paid directly to an employee. The cost of employee benefits is not recaptured by the district unless the benefits are specifically included in the grant reimbursement request.

**Composite Rate:** an hourly rate higher than the gross wage used solely for grant billing purposes. The composite rate includes a portion of all employee costs, not just the gross wage. It includes a portion of vacation, sick, and holiday pay as well as the employer portion of state and federal taxes and employee insurance and retirement costs.

#### ✓ Which is best?

Either system is accepted by state granting agencies. With the gross wages method, the district pays the cost of employee benefits, and then requests reimbursement of those costs. With the composite rate system, projected employee overhead such as vacation and sick leave are automatically included in every reimbursement request. The composite rate system allows a district to have the cash available to pay employee overhead before the costs are incurred. It is particularly useful for districts if their employees work on multiple projects with different funding sources.

#### ✓ What is the problem?

**When using a composite rate, the district should voucher grants only for time employees actually work in the office or field; the district should never directly bill a grant for vacation, sick, or holiday hours.** Those hours are paid out of the funds the district has "banked" by vouchering at a rate higher than the gross wage rate. In a month where an employee uses leave, the grant reimbursement is less than the actual out-of-pocket costs. However, the district has already been paid for the leave and put those funds into savings, so it is

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not “short” any money. If a district does voucher directly for vacation, sick, or holiday hours in a composite rate system, it is essentially requesting payment twice for the same expense.

A related issue is incorrectly charging exchange or compensatory time to a grant. There are two aspects to this: tracking employee time and vouchering for employee salaries and benefits. The appropriate steps and timing are:

1. **Capture the time when it is earned.** Exchange time or overtime worked should always be captured on the employee’s time sheet when it is earned. This information forms the basis for requesting grant reimbursement of employee salaries and benefits. A running total of exchange or compensatory time should be included on the employee’s time sheet.
2. **Request reimbursement in the next voucher.** Costs for exchange and compensatory time earned by an employee in that time period are then reimbursed to the district in the next grant voucher.
3. **Don’t request reimbursement for those hours again.** When those exchange or compensatory hours are used by the employee, they are subtracted from the running total on the employee’s timesheet, but they are not vouchered against the grant because these costs have already been paid to the district.

### ✓ Are there other issues?

Your district should keep careful track of the salary and benefits liability that accrues. As employees build up a bank of earned benefits such as vacation time, your district should build a cash reserve sufficient to cover those expenses. If your district does not maintain an accounting of those accrued liabilities, you may find you do not have sufficient funds available to cover those costs.

It is easier to build this cash reserve using the composite rate system because your district collects employee-related costs as they are earned. Using the gross wages method, your district must tap some other source of funding to build this cash reserve, and then must request reimbursement of those costs to avoid depleting the fund.

Although the composite rate system appears to be more complex than vouchering based on gross wages, in actual practice it is often easier to use. More importantly, the composite rate system allows your district to have the necessary funds to pay your employees the benefits they have earned. Since your district collects the money before it is paid out, you can earn interest on it until it is used.